

## **Muslim and Non-Muslim Fund Managers' Perception of Environmental Information**

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### **ABSTRACT**

The Islamic concept of accountability includes full disclosure of information to wider stakeholders, be it information on companies' financial or non-financial matters. The objective of this study was to examine the differences in perception between Muslim and non-Muslim fund managers regarding the usefulness of information on the environment in investment decision making. A questionnaire survey was used and 59 responses were received. No differences were found in perception between Muslim and non-Muslim fund managers related to several companies' environmental attributes and environmental information types. This implies that the Islamic worldview is not reflected in the perception of Muslim fund managers. This study makes a significant contribution to research in environmental reporting, particularly for companies and practitioners in Malaysia in the context of accountability in Islam. The study suggests some preliminary insights into the use of environmental information by Muslim and non-Muslim fund managers in Malaysia.

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### **INTRODUCTION**

Many businesses are rethinking their responsibility to various stakeholders in the aftermath of wide-scale financial scandal involving top companies such as Enron, Worldcom and Nike (Ehsan & Kaleem, 2012). These corporate scandals indeed have served as a wake-up call for the entire

financial world to be more responsible to society (Janggu *et al.*, 2007). Therefore, there is a growing trend of corporate social reporting (CSR) around the world. CSR practices are highly encouraged but they consume company time, energy and money (Saleh *et al.*, 2011). In addition, CSR information should be useful to corporate preparers and stakeholders. Many studies on perceived usefulness of social information have been carried out for decades; however, the researchers have not been able to find even one study that specifically focuses on Muslim perception of social information. The Islamic concept of accountability is that of dual accountability (Mohamed Ibrahim, 2000): accountability to God and to God's creatures. Hence, it is important for companies to provide full disclosure of non-financial information to reflect transparency in information sharing and accountability to wider stakeholders. Thus, this study examined the difference in perceptions concerning the usefulness of environmental information in decision-making between Muslim and non-Muslim fund managers.

This study has one significant contribution, i.e. the role of Islam, and this is considered deficient in the present literature on environmental accounting. Kamla *et al.* (2006) only examined the idea of environment based on the Islamic principle and accounting but did not empirically test the need for environmental information disclosure from the Islamic perspective. Furthermore, literature on accountability in Islam is greatly lacking.

In addition, the majority of prior studies were based on a Western worldview, which presents a different concept of accountability from that given in the Islamic point of view. Even though this study examined the usefulness of environmental information between Muslim and non-Muslim fund managers, it does not claim that non-Muslim stakeholders are less accountable than Muslim fund managers. The tests were only examined on the degree of importance as perceived by Muslim in comparison with non-Muslim stakeholders. This study expected that Muslims adopted a more comprehensive approach to decision-making by considering several types of information, financial as well as non-financial, which includes environmental information. According to Haniffa and Hudaib (2002), full disclosure of information conforms to the spirit of justice in Islam.

The following section discusses prior literature concerning differences between Muslim and non-Muslim stakeholders from various contexts. The paper continues with methodology used in this study, followed by the findings and analysis section. The last section presents the discussion and conclusion.

#### **DIFFERENCES BETWEEN MUSLIM AND NON-MUSLIM STAKEHOLDERS**

A few scholars (such as, Baydoun & Willett, 2000; Haniffa & Hudaib, 2002; Sulaiman & Willett, 2003) have proposed Islamic Corporate Reporting that can

fulfil the needs of wider stakeholders. Generally, the scholars agree that the main criteria in Islamic Corporate Reporting are social accountability and full disclosure of information. A number of studies examining Islam and corporate reporting have largely focused on the need for companies to be transparent in their disclosure policies (for example, Haniffa & Hudaib, 2007; Maali *et al.*, 2006). Companies need to be transparent through reporting full disclosure of information to wider stakeholders. The information on social performance activities, which includes information about environmental management or protection is important to stakeholders, be they Muslims or non-Muslims, in assisting them to make economic and religious decisions (Haniffa & Hudaib, 2002).

In Islam, the concept of accountability is that of dual accountability: accountability to God and to God's creations (Mohamed Ibrahim, 2000). The Islamic accountability concept can be discussed from two different views. First, an organisation is a social partner in the wider society. The management of the company acts as a trustee of capital providers and, thus, is responsible to carry out business ethically in a manner that will not impair the well-being of the community. The responsibility of the management includes accountability to disclose information in assisting users to make decisions (Haniffa & Hudaib, 2002). Islam emphasises the notion of full information disclosure, that is, that information should be rightfully given

to members of the community (Baydoun & Willett, 2000). Thus, financial as well as social information, including environmental information, should be reported to the users (Haniffa & Hudaib, 2002), which is in line with the Islamic concept of accountability. In addition, full disclosure of information conforms to the characteristic of justice in Islam.

Second, the Islamic concept of accountability indicates that each Muslim should realise his role as vicegerent in all situations. Man is not made without purpose and it is such purpose that gives meaning to God's creation (Sulaiman, 2005). Thus, man is accountable for his actions (inactions), which will be accounted for in the hereafter, and this includes every decision he makes.<sup>1</sup> Accountability of man is not restricted to the accountability to God but also accountability to God's other creatures including humankind, animals and the environment. Man is accountable to secure the welfare and sustainability of the environment as referred to by Samarai (1997) that the earth is for the betterment and development and not for misuse of God's given resources. Accountability also implies responsibility. According to Naqvi (1981) the concept of responsibility in Islam limits the freedom of man in what he does. Freedom in Islam explains that only *Allah* has the absolute right upon everything

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<sup>1</sup>“Hold yourselves to account before you are held to account, for it is easier for your accounting, and measure your deeds before they are measured for you” (from Omar bin Al-Khattab (may *Allah* be pleased with Him)).

and man should exercise his freedom to ensure that the wider interests of the community are safeguarded.

A few studies were identified that examine the extent to which culture, race and religion influence decisions made by groups of stakeholders. Ramasamy *et al.* (2007) examined the relationship between corporate social performance and ethnicity. The results indicated that organisations with Malay<sup>2</sup> chief executives reflected higher corporate social performance levels than organisations with Chinese chief executives. The authors believe that religious upbringing may play an important factor that contributes to the difference. According to Abdullah and Lim (2001), among the three major ethnic groups in Malaysia, Malay managers have a more positive attitude towards religion and their work ethics are strongly attached to their religious beliefs. This indicates that Islam has a deep influence on the attitudes and behaviour of Muslims when their behaviour is guided to comply with the Islamic teachings (Lim, 2001).

Haniffa and Cooke (2002) examined the effect of culture and corporate governance mechanisms on voluntary disclosure of companies in Malaysia. In the study, culture was measured by

race (Malay versus Chinese) and one of the voluntary disclosure items was information on environmental policy. The authors found that firms dominated by Malay directors have higher voluntary disclosure. They asserted that this is due to Islamic business ethics, which encourages transparency in business.

In 2005, Haniffa and Cooke further examined the influence of culture and corporate governance characteristics on the social reporting of companies. Similarly, culture is determined by ethnicity of the directors and shareholders. The authors asserted that companies with Malay finance directors, board of directors dominated by Malays and companies with a majority of Malay shareholders have greater social information disclosure. The authors found a significant relationship between Malay directors and Malay shareholders with corporate social disclosure practice in the annual reports of companies in Malaysia. Although the authors claimed that the results were primarily due to the legitimization strategy by companies in Malaysia in order to divert the attention of stakeholders concerning the government's economic discrimination on the basis of ethnicity, they also agreed that social disclosure by companies was not culture-free (Haniffa & Cooke, 2005).

The above studies imply that religion (in this particular case, Islam) as a cultural variable (Sulaiman, 1997) has, to some extent, influence on individual perceptions

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<sup>2</sup>Article 160 of the Constitution of Malaysia defines Malay "as a person who professes the religion of Islam..." (Wikipedia, 2010). Accordingly, all Malays in the present study are presumed to be Muslims.

and behaviour, which subsequently affects their decisions. A Muslim who nurtures the Islamic principles of *Tawheed* (unity), *Khilafah* (vicegerency) and '*Adl* (justice) in life will acknowledge the importance of preserving the environment from corporate misconduct. For example, one would expect a Muslim fund manager not to invest in a company that harms the environment. Indeed, the importance of protecting the environment as stated in the UN Global Compact<sup>3</sup>, according to Zinkin (2007), seems to follow the principles in Islam. Hence, disclosure on environmental information is considered as satisfying an Islamic society's need for full disclosure and social accountability (Sulaiman & Willett, 2003). Therefore, perception on disclosure between Muslim and non-Muslim stakeholders could be different. One would expect committed Muslims to perceive environmental information to be more useful than would non-Muslims. A Muslim fund manager who refers his doings at all times to *Shari'ah* (Islamic

law) is likely to realise the importance of having complete corporate information before making investment decisions. This indicates his responsibility to all God's creation.

Accordingly, the following null hypotheses were developed:

**Hypothesis 1:** There is no difference in the perceived importance of company environmental attributes between Muslim and non-Muslim fund managers.

**Hypothesis 2:** There is no difference in the perceived importance of various types of environmental information between Muslim and non-Muslim fund managers.

## RESEARCH METHOD

Fund managers were chosen because Deegan and Rankin (1997) asserted that they are one of the important stakeholders and were responsible for making related investment decisions (Fayers *et al.*, 2000). The questionnaire consisted of two sections. In Section A, two questions to address two different variables on environmental information disclosure were included. The measurement scale included level of importance in which 1 indicated not important and 5 was extremely important. According to Salkind (2000), the Likert scale is suitable when questions require respondents to express an opinion or perception of an event, object or person. Question 1 required respondents to rate the degree of importance of various

<sup>3</sup>There are 10 principles in the UN Global Compact. Principles 7, 8 and 9 focus on the environment; Principle 7, on the implementation of a precautionary and effective programme for environmental issues, Principle 8, on initiatives that demonstrate environmental responsibility and Principle 9, on the promotion of the diffusion of environment-friendly technologies. Zinkin believes that Islamic principles are aligned with the modern views to enhance social, human and natural capital that are also emphasised in the UN Global Compact.

environmental attributes of a company when they make decisions. There were thirteen items, which were adapted and modified from Thompson and Cowton's (2004) instrument. Question 2 measured different types of environmental information that fund managers perceived as important in their decision making. The study used the checklist developed by Sumiani *et al.*, (2007), which was developed based on prior studies and also the categories of social and environmental disclosures used by the Centre of Social and Environmental Research (CSEAR), UK as well as guidelines on performance indicators developed by the GRI. Seventeen out of 24 different types of environmental information were adapted. Section B required information about gender, age and religion. The questionnaire was piloted with academicians and fund managers using convenience sampling before being finalised. The questionnaire was then modified according to comments received from the pilot respondents.

There were 218 questionnaires sent to the respondents. However, only 59 useable responses were received, giving a response rate of 27%. Using the Mann-Whitney U test, no significant difference was found between early and late responses. Cronbach's alpha value had a minimum of 0.89 for all questions.

The Cronbach alpha value indicated that the items set in the questionnaire had high internal consistency reliability. However, the test of normality revealed that the data were not normally distributed. Several attempts to normalise the data were carried out, yet the results of the normality tests remained the same. Accordingly, the non-parametric test of differences, that is, the Mann-Whitney U test, was applied to examine the developed hypotheses.

## FINDINGS AND ANALYSIS

### *Demographic Analysis*

The majority of the fund managers were male, which represented 71.2% of the total number of fund managers (28.8% were female). Half of the fund managers were in the age group of 31-40 (50.8%). Relatively few of the fund managers were below 30 years old or in the age group of 41-50 years old (20.3% and 23.7%, respectively). Interestingly, 3 fund managers were above 50 years old, which indicates their maturity working in fund management and investments. While 35 fund managers were Muslims (59.3%), the remaining included Christians, Buddhists and Hindus. The identification of the respondents' religions is necessary for analysing the differences in perception between Muslim and non-Muslim respondents.



*Company's Environmental Attributes*

TABLE 1

Differences in Perception of the Importance of Environmental Attributes when Making Investment Decisions Between Muslim and Non-Muslim Fund Managers

The company:	<i>Muslims</i>			<i>Non-Muslims</i>			<i>Mann-Whitney (Signif. test)</i>
	Mean	Std devn	Rank	Mean	Std devn	Rank	
exhibits a high standard of environmental awareness (e.g.: in terms of the use of natural resources and/or pollution control)	3.37	1.165	3	3.50	1.180	3	ns
has environmental liability insurance	3.46	1.197	2	3.17	0.917	8	ns
conducts an environmental audit	3.03	1.150	9	3.21	0.884	7	ns
has a formal environmental control unit	2.86	1.167	12	2.96	0.955	10	ns
uses clean technology	3.23	1.060	7	3.29	0.955	4	ns
holds ISO 14001 certification	2.97	1.098	10	2.79	0.779	12	ns
registers its products with an eco-label scheme	2.89	0.993	11	2.88	1.076	11	ns
promotes the recycling of its products, by-products and waste	3.11	1.078	8	3.25	1.113	5	ns
seeks to minimise energy consumption	3.49	1.095	1	3.92	1.100	1	ns
seeks to minimise the use of materials that harm the environment	3.29	1.152	5	3.25	1.294	6	ns
meets all known and likely future environmental control standards	3.31	1.183	4	3.54	0.977	2	ns
manufactures environment-friendly products	3.26	1.067	6	3.12	1.035	9	ns
involved in environmental consultancy	2.60	1.035	13	2.33	1.049	13	ns

1 = not important, 2 = quite important, 3 = important, 4 = very important, 5 = extremely important  
 ns = not significant

The results, as shown in Table 1, presented no statistical difference in the perceived importance of environmental attributes between Muslim and non-Muslim fund managers in Malaysia. Accordingly, there was not enough evidence to reject the null hypothesis.

Indeed, as to the mean rankings, both Muslim and non-Muslim fund managers perceived the importance of the company's environmental attributes equally. Though not in the same order, both groups ranked

nine out of thirteen items in the list as important with seeking to minimise energy consumption before making investment decisions being ranked as the most important attribute by both groups. The four environmental attributes that were ranked as quite important (rated at 2) were: having a formal environmental control unit; securing ISO14001 certification; registering products with an eco-label scheme; and involving environmental consultancy.

*Type of Environmental Information*

TABLE 2

Differences in Perception of Various Types of Environmental Information as Being Important for Investment Decisions Between Muslim and Non-Muslim Fund Managers

	<i>Muslims</i>			<i>Non-Muslims</i>			<i>Mann-Whitney (Signif. test)</i>
	Mean	Std devn	Rank	Mean	Std devn	Rank	
Financial information on past and current environmental expenditure	3.20	1.132	5	3.42	1.176	4	ns
Financial information on future estimates of environmental expenditure	3.54	1.010	3	3.38	1.096	5	ns
Financial information on financing for environmental equipment	3.23	1.140	4	3.50	0.978	3	ns
Past and present litigation	3.57	1.170	2	3.92	1.139	2	ns
Potential litigation	3.69	1.157	1	4.08	1.018	1	ns
Environmental data on pollution abatement	2.83	1.175	13	3.04	1.042	11/12	ns
Control, installations, facilities or processes described	2.74	1.067	15	3.12	0.947	7/8	ns
Land rehabilitation and remediation	2.80	1.132	14	3.04	0.908	10	ns
Conservation of natural resources	2.86	1.167	12	3.04	1.042	11/12	ns
Departments or offices for pollution control	2.71	1.073	16	2.83	1.129	15	ns
Regulations and requirements	3.14	1.216	7	3.33	1.274	6	ns
Policies or company concern	3.17	1.098	6	3.12	1.116	9	ns
Goals and targets	3.11	1.132	8	3.12	0.947	7/8	ns
Awards	2.69	1.157	17	2.50	1.022	17	ns
Environmental audit	3.00	1.138	9	2.92	0.929	13	ns
Environmental management system	2.86	1.061	10	2.92	0.974	14	ns
Environmental end products/services	2.86	1.115	11	2.71	1.042	16	ns

1 = not important, 2 = quite important, 3 = important, 4 = very important, 5 = extremely important  
 ns = not significant

The results of the Mann-Whitney U tests as given in Table 2 show that there was not enough evidence to reject the null hypothesis. This implies that there was no difference in perception between Muslim and non-Muslim fund managers concerning the importance various types of environmental information on their investment decisions.

Both Muslim and non-Muslim fund managers ranked high questions related to environmental information linking to past, present and future litigation

as well as environmental information on the company's past, present and future environmental expenditure. The results showed that both groups perceived environmental information as being important in their investment decision-making process. In addition, both groups ranked information about environmental awards compared to other types of environmental information as important for investment decisions as being the lowest.



In general, there was no evidence indicating that Muslims perceived environmental information as being more important compared to non-Muslims. The findings of this study indicated that there was no differences in perception between Muslim and non-Muslim fund managers for both variables tested.

A Muslim lives under *Shari'ah*, a general framework that guides the individual on how to operationalise Islamic attitude and behaviour in all doings (Al-Buraey, 1990). The ethical principles explained by Naqvi (1981) and Chapra (1992), if practised by everyone, can create a Muslim who will look into many important elements before making decisions. This includes the importance of environmental information in decisions. Environmental information disclosure fulfils the concept of full disclosure in Islam, which conforms to the spirit of justice in Islam (Haniffa & Hudaib, 2002). Unfortunately, this is not evident in the present study. A possible explanation is that the development of the capitalist world economy and educational curriculum in business related areas has emphasised financial aspects for so long. Meanwhile, ethical elements in education were put aside in many business studies.

## DISCUSSION AND CONCLUSION

Man was created to be God's vicegerent (*Khilafah*) on earth and has been bestowed

with spiritual and mental characteristics (Chapra, 1992). According to Chapra, one of the implications as God's vicegerent is that man must acknowledge God as the absolute owner of resources on earth and that man is merely a trustee. Thus, a Muslim is responsible to use the given resources in a manner that will benefit not only himself but also the wider society (Sulaiman, 1997). Furthermore, Muslims should always believe that they are answerable to their every single action and inaction, which will be taken into account in the Hereafter (Abu-Sway, 2002; Abdul Rahman, 2003). Accordingly, responsibility for all actions and inactions include Muslims' decisions concerning investment decisions.

Unfortunately, the results of the study did not support the argument. The results indicated that there were no differences in the perception of environmental information between Muslim and non-Muslim fund managers and, thus, none of the hypotheses can be rejected. This implies that the Islamic worldview is not reflected in the perception of Muslim fund managers. Additionally, the results were also inconsistent with prior studies on the difference in attitude concerning social issues between Malay and non-Malay top managers in companies (for example, Abdullah & Lim, 2001; Haniffa & Cooke, 2002, 2005; Ramasamy *et al.*, 2007).

There are several possible explanations for these results. First, the world economic

system is built on capitalism, and the main objective of a capitalist economy is to maximise profit. The main feature of capitalism is economic rationalism (Weber, 1979 cited in Sulaiman, 1997). According to Weber, several assumptions are embedded in this type of economy. The first assumption is that humans are motivated by self-interest to increase financial gain. The second assumption is that the action that yields the greatest financial return to an individual is the one that is considered the most beneficial to society. This encourages competitive rather than cooperative behaviour in society. Finally, human progress is implied by higher levels of material output, leading to improvement in the well-being of society (Weber, 1979 cited in Sulaiman, 1997).

However, Islam's viewpoint is different. Islam clearly denies economic rationalism, in which the element of self-interest is claimed to indirectly offer benefit to society and to improve its well-being. The economic system from the Islamic perspective is developed according to *Shari'ah*, which explains the relationship between man and the Creator, man with other creatures and man with the environment, and where the goal is to achieve *falah* (success) for the people and the wider society (Abdul Rahman, 2003). These relationships may be represented by the four ethical principles described by Naqvi (1981), as unity, equilibrium, free

will and responsibility. Islam emphasises collective interest rather than self-interest. In Islam, the pursuit of profit should be carried out within the freedom granted to humankind by *Allah* for the use of the resources so provided. Humankind should use the resources with responsibility to provide benefit to society with the intention of ensuring socio-economic justice and to *Allah's* pleasure (Sulaiman, 1997). One of the major problems of Western economic rationalism is that it separates religion from economic activities. The implication of Western economic rationalism is that one would choose to invest in projects that can generate the highest returns with the lowest risk rather than a project that can provide benefit to society (Haniffa & Hudaib, 2002). This is consistent with the results of this study, which concerned Muslim perception of the importance of environmental information in decision making.

The second is the failure to highlight the importance of ethical issues in accounting-and business-related education. The accounting education that is presently being taught at institutions of higher learning is inconsistent with Islamic teachings (Haniffa & Hudaib, 2002). Many Western accounting concepts and principles, such as going concern, money measurement, business entity, historical cost, conservatism, matching and materiality concept that are currently applied in many countries,

including Malaysia, are irrelevant from the Islamic point of view (Adnan & Gaffikin, 1997). For example, Adnan and Gaffikin explained that in conventional accounting practice, a business is assumed to be in existence for the foreseeable future. However, this is criticised from the Islamic perspective as it implies that there is something else other than *Allah* that will live indefinitely. This is clearly unacceptable from an Islamic point of view. They further added that the concept of money in accounting has several limitations. Accounting information is limited to information expressed in monetary units, and monetary units are unstable over time. This implies that accounting information that cannot be expressed in monetary value, such as social and environmental information, should not be reported (Belkaoui, 1992). Indeed, the primary objective of accounting information should be to fulfil the obligation of accountability to the Creator, that, *Allah* (Adnan & Gaffikin, 1997). This is manifested through comprehensive disclosure of accounting information, which also promotes the spirit of justice and benevolence in Islam (Haniffa & Hudaib, 2002). The results of the study seem to show that Muslim fund managers are significantly influenced by Western accounting thought that was learnt in tertiary education.

In essence, the importance of environmental information disclosure

that fulfils the full disclosure principle in Islam was not reflected in the perception of Muslim fund managers. In sum, despite the increasing trend of companies to report social and environmental information, its perceived importance in investment decisions to Muslim fund managers in Malaysia is still unclear. However, the small number of responses may impair the statistical findings. Perhaps a greater number of responses may give different results.

The findings imply that companies in Malaysia should be responsive and consider reporting both financial and environmental information to users. This study can also assist the relevant authorities like Bursa Malaysia to establish environmental information criteria as disclosure for companies perceived to be useful to stakeholders. The institution of higher learning can also play a role in enhancing students' understanding about the importance of responsibility and accountability concerning social issues such as environmental protection. In teaching business-related courses, accountability should also be emphasised as an important factor in making economic decisions.

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